How Much Home Can I AFFORD?

When home buyers qualify for a mortgage, not all monthly expenses are taken into consideration. Analyzing an all-encompassing monthly budget can prevent homeowners from borrowing more money than they can really afford.

by Susan Thomas Springer, for The Bulletin Advertising Department

Somewhere between a palace and a playhouse is the right-sized house for anyone. And somewhere between too small and too big is the just-right monthly payment. So how do you determine your personal middle ground.

Home buyers have always grappled with that question, and now finding what range one can realistically afford is top priority due to slow economic times.

By using a little math, understanding a few acronyms, and working with a knowledgeable mortgage professional, you can figure out the right numbers for you. Local mortgage experts say along with the calculator comes judgment.

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"Just because the bank allows it doesn't mean you need to spend that amount on housing," said Dave Woodland, northwest regional manager of Signet Mortgage.

Woodland advises customers to consider their lifestyle and spending habits when it comes to vacations, retirement saving, groceries and other shopping.

"What they are comfortable paying is up to them," said Brock Snidow, Bend branch manager of Summit Mortgage.

Snidow advises homebuyers to do their financial homework early so they are ready when their dream home comes along.

Some lenders offer a rule of thumb that you can spend anywhere from two to six times your annual salary on the price of a home. However, it's a lot smarter to do the math backwards and figure out the monthly payment that is most reasonable, then find out what loan amount that monthly payment matches up to.

So with mouse or pencil in hand, here are items to figure into the equation:

The first bit of alphabet soup to bite off is DTI—also known as debt-to-income ratio. It is the percentage of income which goes toward housing costs. That sounds simple enough, but the trick is to deal with actual income and total debt.

Different lenders and loan programs have different requirements and vary greatly on accceptable debt-to-income ratio. A person's credit rating also plays a factor.

PITI is another good term to know. It stands for principal payment, interest, taxes and insurance, which are the basic costs homeowners need to pay each month. Even if you plan to pay your homeowner's insurance once a year, lenders prorate all costs associated with a mortgage to estimate what borrowers must be able to cover each month.

Most lenders require borrowers to pay private mortgage insurance (PMI) when buyers have less than 20 percent of the cost of the home to put down in cash at closing. PMI protects the lender from loss if the borrower defaults on a loan. It does not protect the borrower. The benefit of PMI is that it allows borrowers who can't save a large down payment to buy a home and borrow more than 80 percent of the sale price. Of course, the cost of that insurance needs to be added as a monthly expense.

Beyond common monthly expenditures, home buyers need to consider all expenses. Some properties come with homeowner's association fees. Other buyers may need to consider ongoing payments, such as child support, child care, medical premiums, credit card payments, car loans, student loans or loans to family members.

Even high utility costs in areas with extreme weather are worth adding up. Also, it's wise to add in savings, 401K contributions and a rainy day fund for home repairs.

Once you've added up all your expenses, add up your income. Woodland points out that home buyers need to be wise money managers if they make additional income beyond their basic salaries. Some workers earn commission or overtime—which is a wonderful addition —yet income which fluctuates needs to be added with caution.

Woodland advises that buyers should avoid "stretching to the farthest point possible."

Snidow said there are government programs which can lend assistance to lower-income buyers. For example, as part of the American Recovery and Reinvestment Act, buyers who act this year may qualify for a federal tax credit of up to $8,000.

"It's an incredible selling point for a first-time buyer," said Snidow.

To qualify, the house must be the homeowner's primary residence, and income limits apply.

In addition, FHA loans are popular again, so it's worth asking what the benefits of the program are.

Both Woodland and Snidow agree the answer to the question, "what can I afford," takes both math and personal assessment. Those two ingredients remove some of the uncertainty of today's market and can help make your dream home a reality.

IDA Funds Awarded to NeighborImpact

Matched savings program will educate and enable qualified low-income households to save for a home purchase or business development.

NeighborImpact has been awarded a limited number of Oregon Individual Development Account (IDA) slots to enroll low-income households in a matched savings program that will help people save money to buy a home or expand a business.

Households must save a certain amount of their own income each month, as determined in cooperation with a NeighborImpact counselor. Each dollar saved is matched by $3 from the state if the household attains its savings and educational goals.

Households in the tri-county area of Crook, Deschutes and Jefferson counties who earn 80 percent or less of area median income adjusted for household size are qualified to apply for this program. Individuals must be enrolled in the program for a minimum of six months and a maximum of three years.

Households must save a certain amount of their own money each month, enroll in and complete NeighborImpact courses, such as Homebuyer Education and a Financial Fitness course series to receive the matched funds when they complete the program.

For more information, including income limits, contact Laura Fritz, NeighborImpact Housing Service Manager, at 541-548-2380 ext. 120.